

# ASSOCIATED INDUSTRIES OF VERMONT

REPRESENTING THE VERMONT INDUSTRIAL AND BUSINESS COMMUNITY SINCE 1920

July 9, 2009

Susan Hudson  
Clerk, Public Service Board  
112 State Street, Drawer 20  
Montpelier, VT 05620

RE: Docket No. 7523 -- Associated Industries of Vermont (AIV) Reply Comments Re: Parties Preliminary Positions on Issues List

Dear Ms. Hudson:

The following are AIV's comments in response to the questions presented thus far in this docket and the comments made by other parties. As with other parties to date, we do not comment on every question at this time. There remains much to be discussed with regard to the many issues and questions that have arisen thus far, and in addition to the upcoming workshops, additional rounds of comments ought to be considered.

## General Perspective

AIV's core membership is drawn from the state's manufacturing sector, although we also represent businesses from several other sectors as well. A key concern for manufacturers and other energy-intensive businesses is the cost of electricity. A central concern for AIV in this docket and Docket No. 7533, therefore, is to minimize the electric rates resulting from implementation of the Standard Offer (SO) program to the maximum extent allowed by the law. Although we appreciate other areas of potential benefit that could stem from the program's implementation, including growth in related manufacturing and construction businesses, the net economic impact for manufacturing and the state's economy generally will be largely driven by electric rates, and so it is this overall context that we feel should be the basis for Board decisions.

Although the underlying SO statute does not explicitly include ratepayer welfare as a criteria for determining prices and other terms of standard offer contracts, neither does it explicitly prohibit such considerations. It would not only be in the public's best interest, but also be consistent with the underlying principles of the Board's mission to minimize the cost of power resulting from the program to the maximum extent allowable under the law.

This will require meeting at least two goals. First is adhering to a prudent and cautious standard for avoiding costs that are "excessive", as prohibited under the statute. The second will be developing a reasonable understanding of what "rapid" development means under those same provisions. This latter effort is likely to take some time as experience is gained over multiple pricing cycles, but we would note that key legislators leading the effort to develop and pass the underlying legislation repeatedly stated that they expected it to take many years, even decades, before the 50 megawatt cap is reached. In any case, to the extent that there is a range of subjectivity to one's understanding of "rapid", we would again suggest that the Board should seek lower rather than higher rate impacts.

Generally, many of the issues raised thus far, including many not addressed specifically in these comments, have cost implications for ratepayers, either directly or indirectly. The fundamental premise

for addressing these issues, therefore, should be "What answer or solution is most likely to contribute to the lowest electric rates for Vermonters?"

As noted by BED but applied somewhat differently, we should all strive to "first, do no harm."

## **Overview of Selected Key Issues**

### **1. Gathering data on costs of different renewable resources . . .**

The law would seem to require close attention to the many factors impacting costs and ensuring that prices are not "excessive" (as noted above). This would in turn seem to require extensive reporting on the part of all developers. There will have to be some mechanism, therefore, to access and review even information that might be considered confidential.

### **2. Evaluation of data . . .**

To avoid prices that are excessive, one important factor in adjusting the interim prices, as well as in subsequently setting prices in Docket 7533, will be to compare statutory or proposed prices to actual contract prices for analogous generation projects developed or in the process of development in Vermont, the region, and beyond. To the extent that prices for such comparable projects are lower than what is in statute or what has otherwise been proposed, it would suggest that final prices should be lowered to avoid being excessive.

We believe that a meaningful review of this sort, as well as a review of other potential sources and analyses, should be possible to help assess and make necessary adjustments to the interim prices despite time constraints. We look forward to further discussion of this possibility.

### **3. What level of granularity should prices have? One for each type of resource, or different prices based upon certain characteristics? . . .**

Although the statute authorizes the Board to consider different prices within categories, such granularity is not required. We would recommend against setting different prices for different capacities within categories. By setting an optimal price for the most cost effective capacity within each category, the Board would comply with the law but also help minimize rate impacts, as suggested in comments from other parties. Also, the time constraints facing the current dockets would seem to argue in favor of simplicity for the time being.

### **4. How do we value the tax credits and other support, such as grant programs? . . .**

The statute directs the Board to include a "generic assumption" about taxes and other incentives, which would seem to argue against differential treatments. With regard to potential developers who are not subject to taxation, it is worth noting that they, by the same token, face lower costs than do taxable developers. This should be considered in any further discussion of this issue.

### **7. How should the Board calculate the adjustment factor so that prices are high enough, but not excessive? . . .**

With regard to factoring in peak/off peak times and geographic constraints, as with the several other issues in this and other issue areas that can impact ratepayer costs, the Board should take what steps will lead to the lowest rates overall.

### **9. Under the statute, the utilities receive RECs associated with SPEED projects . . .**

The several questions raised about handling RECs are also prime examples of where ratepayer benefit should be a top consideration; the Board should require whatever conditions and mechanisms will best ensure that the handling of RECs translates into the lowest rates for consumers generally.

15. The statute specifies that the term of the contract varies from 10 to 25 years. Who should decide on the duration?

To the extent that we have concerns about the statutory criteria for setting SO prices and the resulting risk to ratepayers, we generally lean toward minimizing the duration of contracts to shorten ratepayer exposure to distorted costs. But we recognize that minimizing ratepayer risk might not be as simple as that, and look forward to further discussion as to how best to protect ratepayer interests within the discretion provided by the statute for contract duration.

18. If farm methane projects are allowed to retain ownership of RECs: . . .

It would seem that ensuring that costs are not excessive will require factoring RECs into farm methane rates.

22. Would an auction mechanism be a useful means for determining the rates necessary to meet the statutory directive that requires a price "sufficient . . . for the rapid development and commissioning of plants and does not exceed the amount needed to provide such an incentive"?

We find the auction concept raised in this question and supported in other comments intriguing and potentially very advantageous. Developing mechanisms that could harness competitive incentives to minimize costs would obviously be beneficial to ratepayers. There might be several difficulties in doing this, however, and the competitive incentives could be insufficient, by themselves, to avoid excessive prices. It will be necessary, therefore, to couple any competitive regimes with other mechanisms, including the sort of review of actual contracts mentioned in our response to question 2 -- here again, if a review of actual contracts demonstrates that analogous development is being incented with prices lower than those suggested by an auction, the final prices should be adjusted downward.

43. Should the Board establish a Vermont-manufactured multiplier to promote the installation and use of technology manufactured in the state? If so, what level of support would be appropriate?

Given AIV's membership and mission, we are naturally very sympathetic toward the interest in this issue expressed by businesses in related industries. They provide many high quality jobs and, as with manufacturing generally, should be promoted through prudent and responsible policies. Nevertheless, to protect the optimal interests of all manufacturers and other energy intensive businesses, as well as the economy generally, the potential benefits of such a multiplier must be balanced against the negative impact of any resulting rate increases. If the Board determines that such a multiplier would be consistent with the underlying statute, we would welcome further analysis of the different effects involved so that all the costs and benefits are thoroughly understood.

We appreciate this opportunity for comment. Again, we believe that there remains much more to be discussed, and we look forward to any possible opportunities for further comment, response, and general discussion.

Sincerely,

/s/

William Driscoll  
Vice President

cc: Electronic Service List